Marine Corps Business Enterprise Future Warfighting excellence will depend upon our ability to take bold, informed shaping actions now that clearly articulate how we intend to transform our processes, organizations and equipment consistent with our 2015 concepts. - M.W. HAGEE

COMMANDER AND CHIEF OF STAFF COURSE
PENN STATE UNIVERSITY
AUGUST 2004

Purpose

- The “Burning Platform”
  - Why we must change
- The vision of the future
  - Where we are headed
- The tools the base commander has to achieve
  - The commanders business toolkit

"*The Secretary of Defense and Secretary of the Navy have emphasized, and the Marine Corps is committed to, business transformation in order to optimize resource allocation… The Marine Corps will continue to refine our business practices and increase the effectiveness of warfighting potential.*"

- MICHAEL W. HAGEE

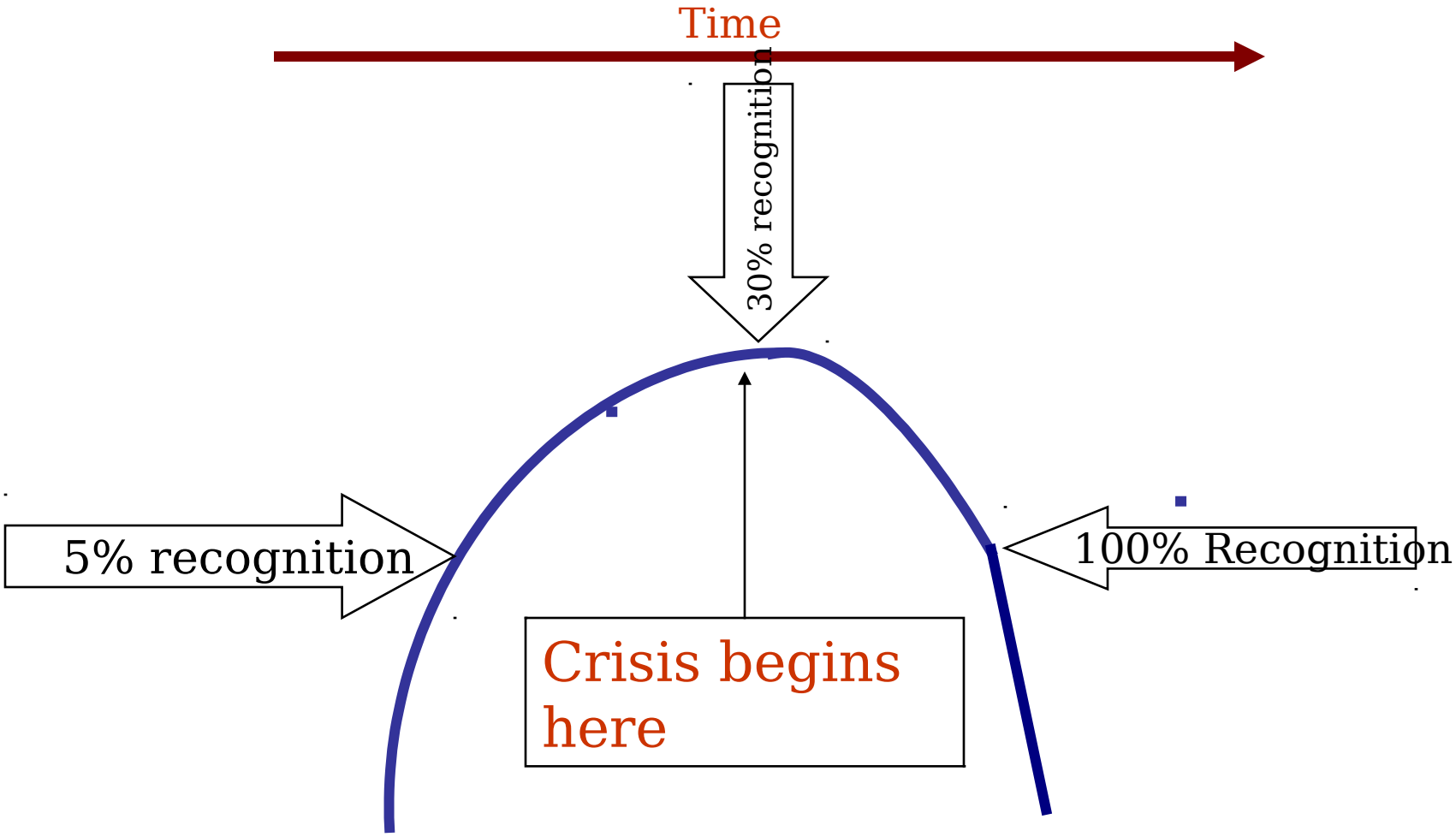
GENERAL, U.S. MARINE CORPS

COMMANDANT OF THE MARINE CORPS

Deep Battle-space Assessment
or
Why Change is Urgent

The Famous Sigmoid Curve

(Abridged from work of Charles Handy)



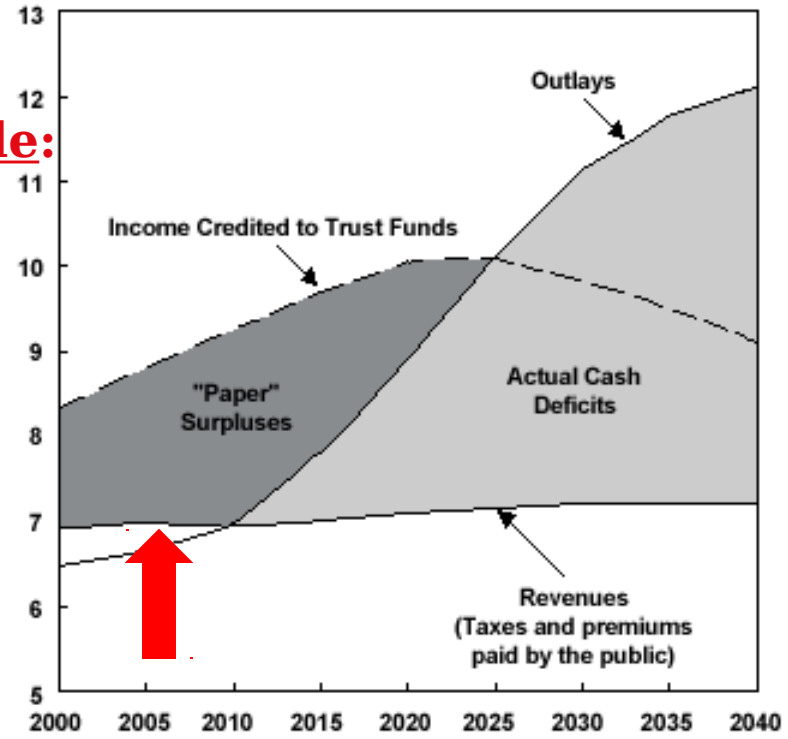
- Solution difficulty increases over time

Internal and External Budget Pressures

Projected Outlays for Social Security and Medicare Outstrip the Programs' Revenues Sooner Than the Trust Funds Reflect

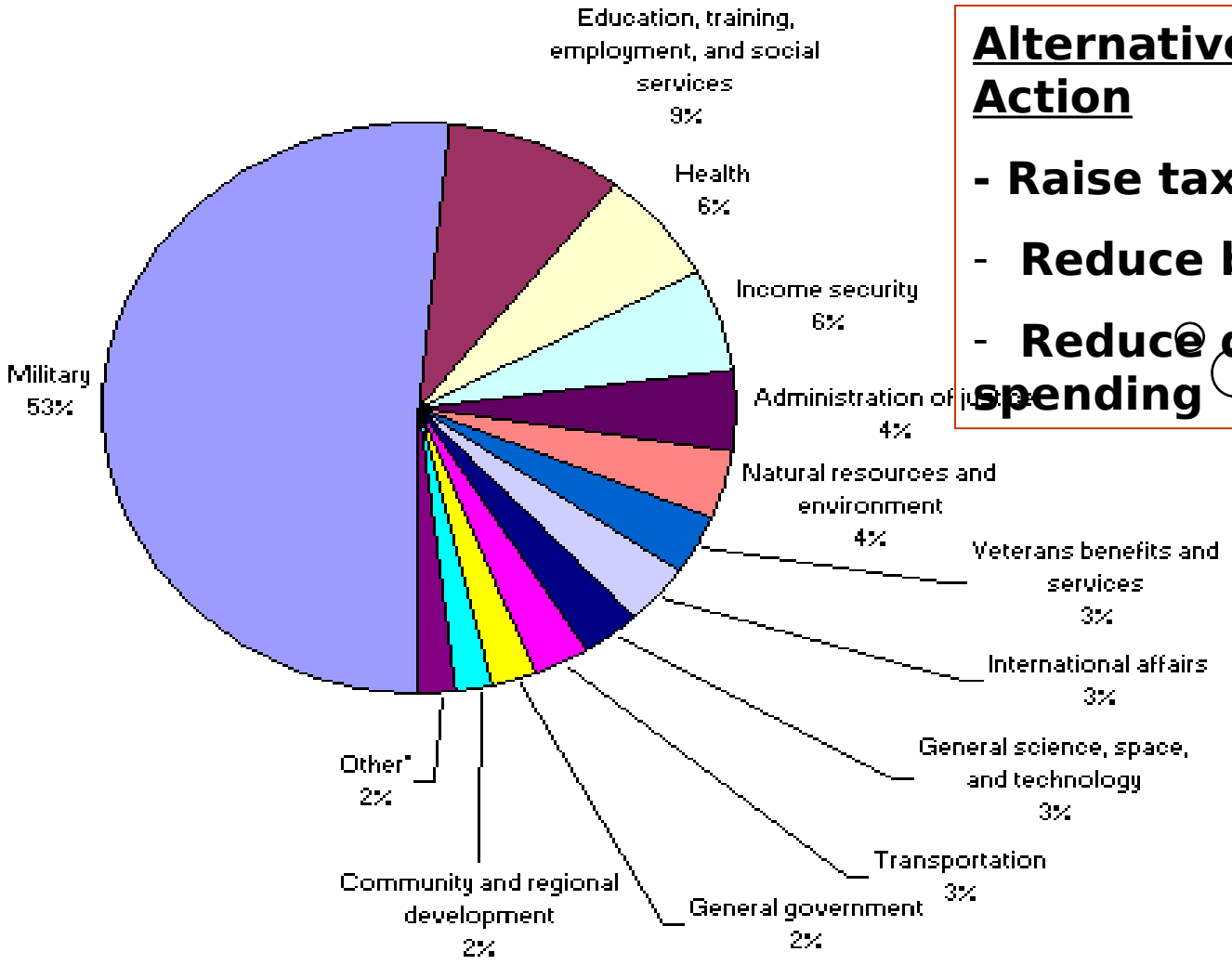
(By calendar year, as a percentage of GDP)

USMC pressures include:
- Modernization
- Aging equipment
- Aging facilities
- Increased QOL
- GWOT



Source: Congressional Budget Office based on Social Security Administration, *The 2002 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds* (March 26, 2002); and Department of Health and Human Services, Centers for Medicare and Medicaid Services, Office of the Actuary, *2002 Annual Report of the Board of Trustees of the Federal Hospital Insurance and Federal Supplementary Medical Insurance Trust Funds* (March 26, 2002).

Politically Radioactive Solutions



Alternative Corrective Action

- **Raise taxes**
- **Reduce benefits**
- **Reduce discretionary spending**

More extreme corrective action required as time passes

Defense as a share of total discretionary spending

“The war on terrorism does not supplant the need to transform DoD; instead, we must accelerate our organizational, operational, business, and process reforms."

- DONALD H. RUMSFELD

SECRETARY OF DEFENSE

Current and Future Initiatives to Fight the Deep Resource Battle

“Efficiency equals effectiveness. We all need to be cognizant of the fact that when we spend a dollar, if we’re not spending it well, then we are taking it out of our combat capability.”

- GORDON R. ENGLAND

SECRETARY OF THE NAVY

Naval Power 21 (Sea Enterprise)

Signed by SecNav, CMC, CNO in October 2002

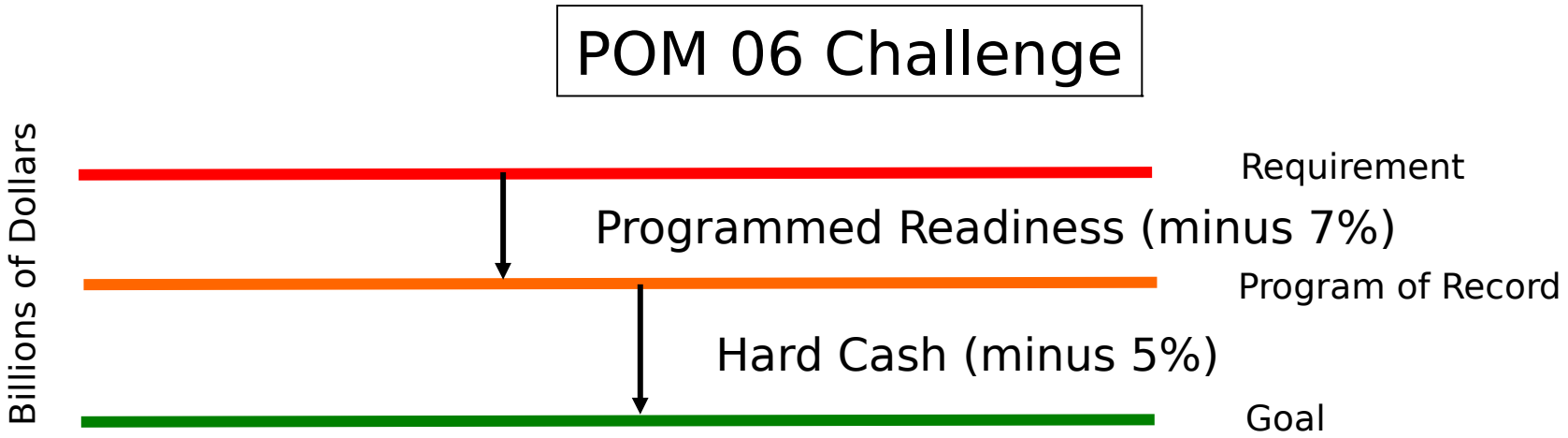
- Optimize resources.
- Free resources for warfighting.
- Eliminate non-core functions.
- Divest/disinvest in legacy systems & platforms.
- Scrutinize current year fiscal operations.
- Reap efficiencies across all activities.

This is the Marine Corps commitment under Naval Sea Enterprise.

Navy Sea Enterprise Objective
(well underway)

- "Program readiness" + create hard cash
- **Everyone** gives to corporate goals
  - Get program within resources (~7% expected reduction)
  - Generate hard cash for transformation (~5% expected reduction)
  - About 13% total expected reduction
  - Nearly 300 initiatives in POM 06
- Focused on 325 ship Navy.
  - But much of the savings will be consumed by bills
- Inclusive, Navy-first approach:
  - Organization/functional interests second
- Vigorously led by CNO, VCNO and BOD.
  - Some heartburn with perceived lack of Marine Corps effort
- Army and Air Force have similar efforts on-going

Resource Pressures in Navy:
Get Readiness within Budget Box



Difference between annual requirement and Desired goal = 13%

Annual resource impact summary:

Navy reduction = $14B (includes end strength reduction)

Equivalent USMC impact (if applied) =

Green = $2.3B

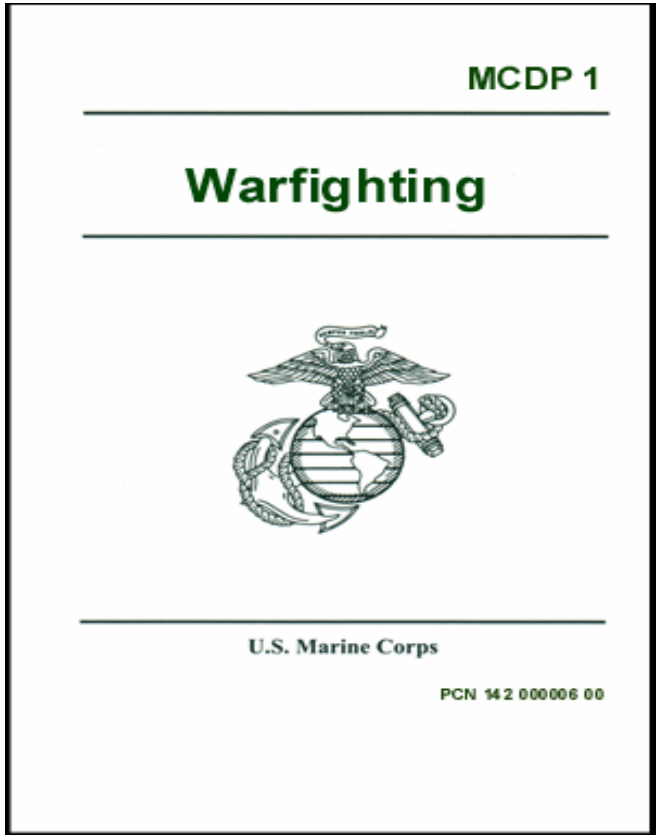
Blue supporting Green = $1.9B

Major USMC Initiatives Underway

- Competitive Sourcing: $95M (annual) saved.
- Outsourcing: NMCI, Food Service, Family Housing.
- Reengineering: MCCS (FAs), 5>3 echelons of maintenance.
- Regionalization: GME, 4th/5th element processes (disbursing).
- E-Gov: MCEITS, GCSS, WAWF, x-BIT (ABC)
- Human Capital: Mil-civ conversions, career communities.
- Divestiture & Early Retirement: AAO-IPT.

Where Are We Headed
or Our Vision of the Ideal Future

The Bottom Line



"The willingness to focus at the decisive place and time necessitates strict economy.

To devote means to unnecessary efforts or excessive means to necessary secondary efforts violates the principle of focus and is counterproductive to the true objective.

Focus applies not only to the conduct of war but also to the preparation for war."

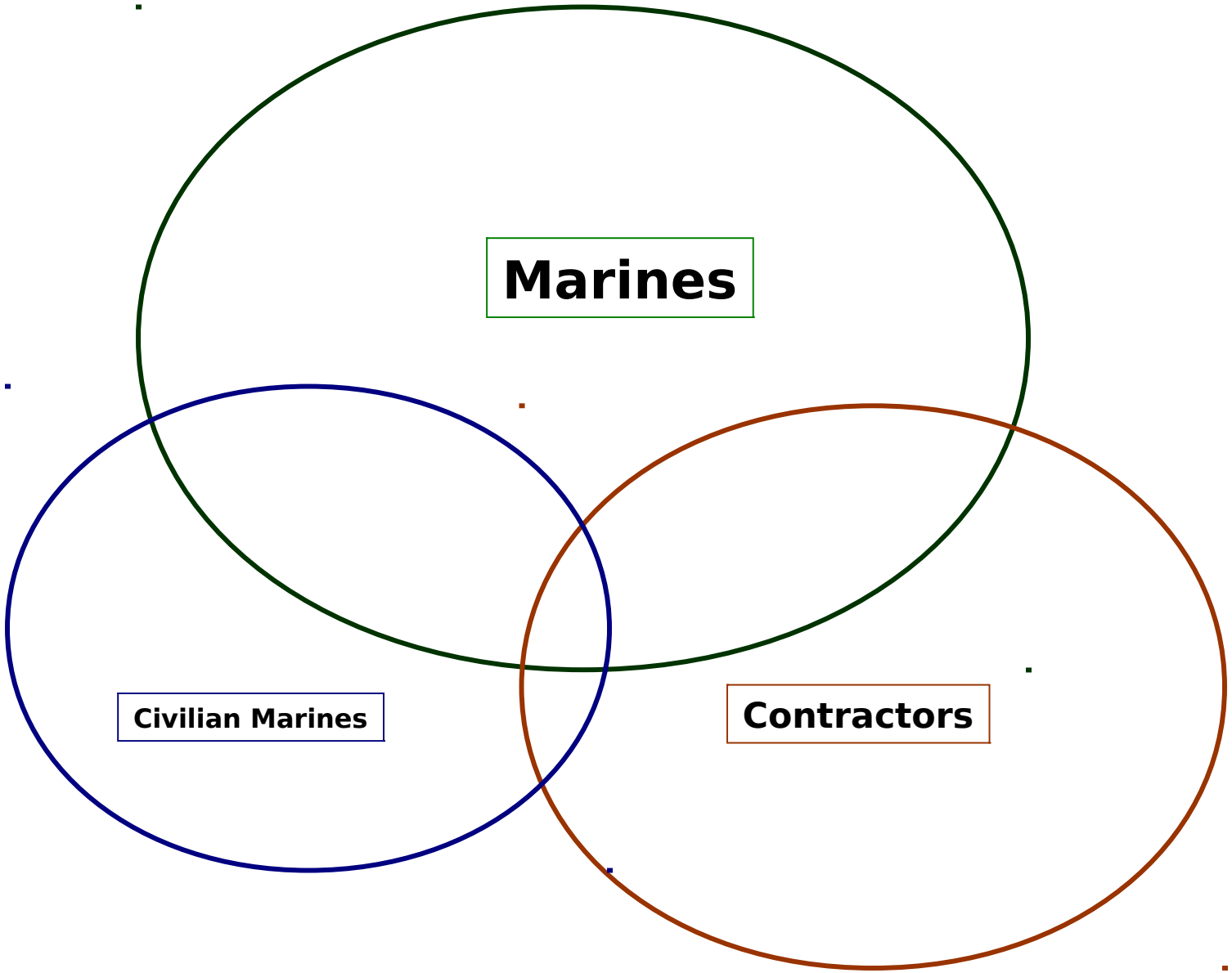
Summary of USMC Direction

- Free resources to support combat capabilities
  - Mil-civ working group - led by M&RA
  - End-to-end process reviews - led by process owners
  - Target costing - led by MCBE and P&R
  - Best practice/benchmarking/idea sharing – all hands effort
- Measure and assess results
- Develop service acquisition skills
  - Service Acquisition (Extended Enterprise)
  - Target Costing
- Continue building towards information system
  - Efficient Data Collection
  - Corporate leadership to share data
  - Common data:
    - full cost,
    - standard process,
    - standard outputs performance measures

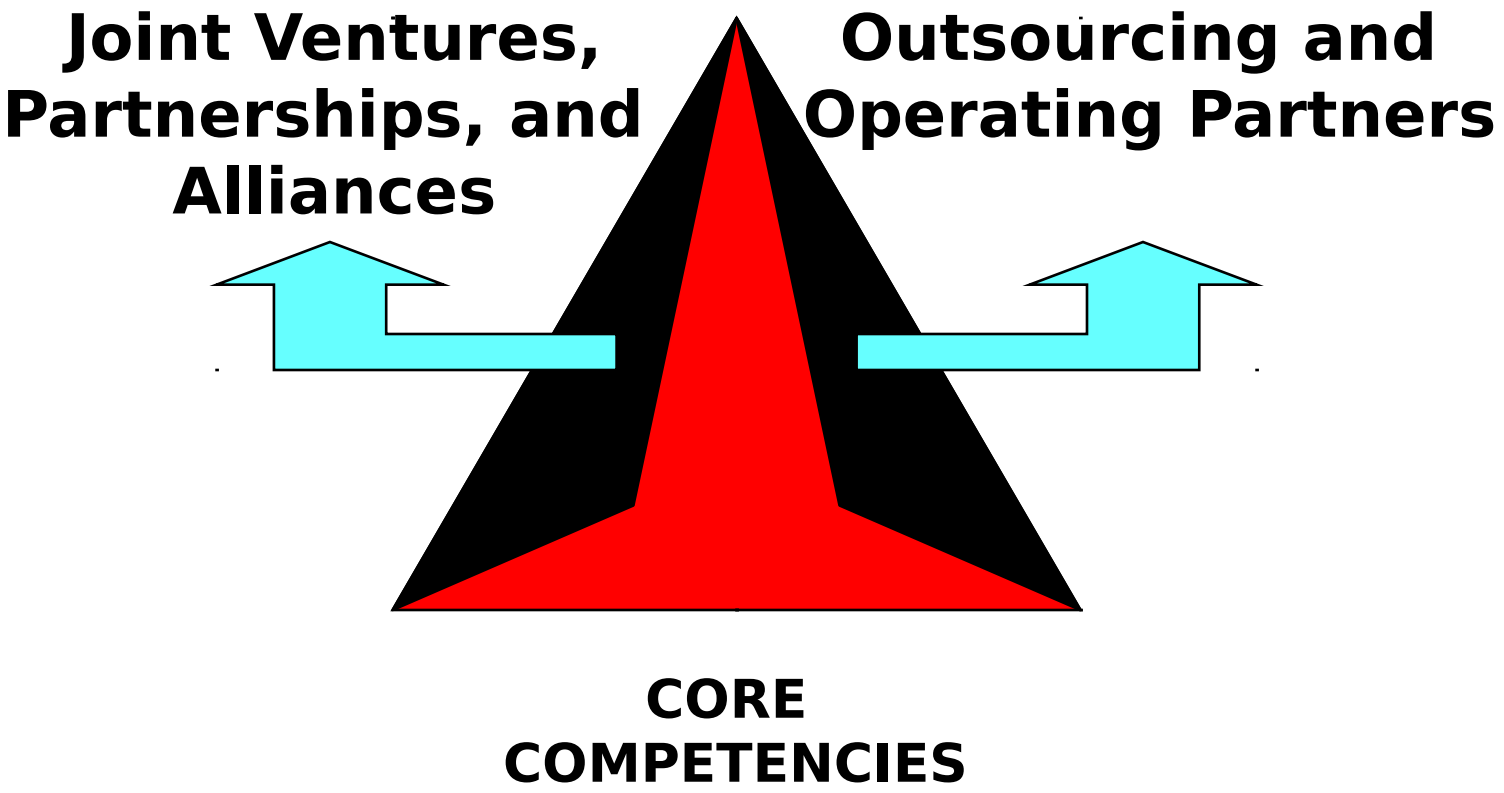
Tools to Succeed With

Better Utilization of the Total Force

The Total Force



New Organizational Paradigm



Better Information and Analysis

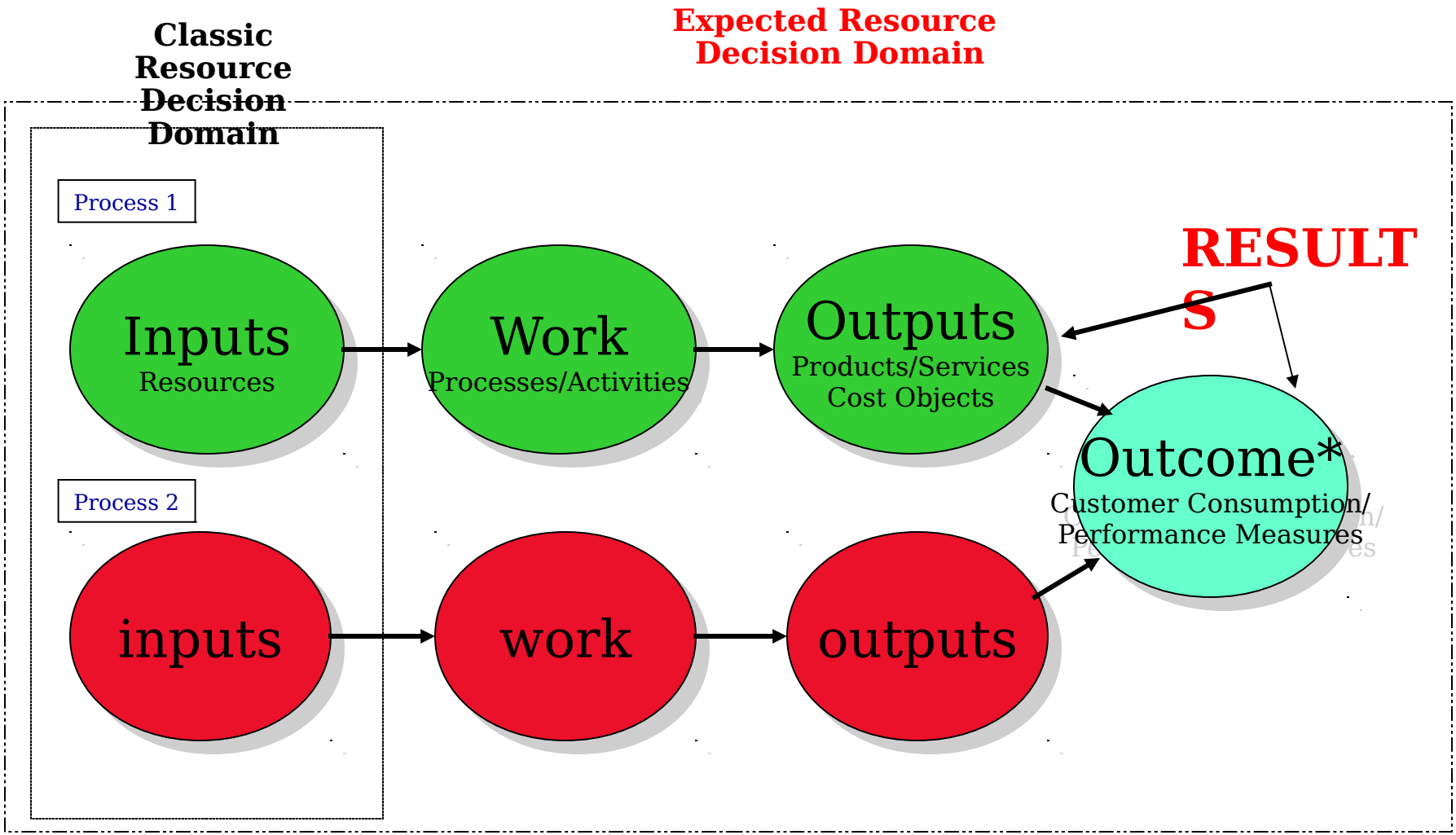
What are ABC and ABM?

- Activity Based Costing (ABC)
  - A methodology, including software
    - Improves visibility of cost
    - Improves visibility of performanc

Of the work being d

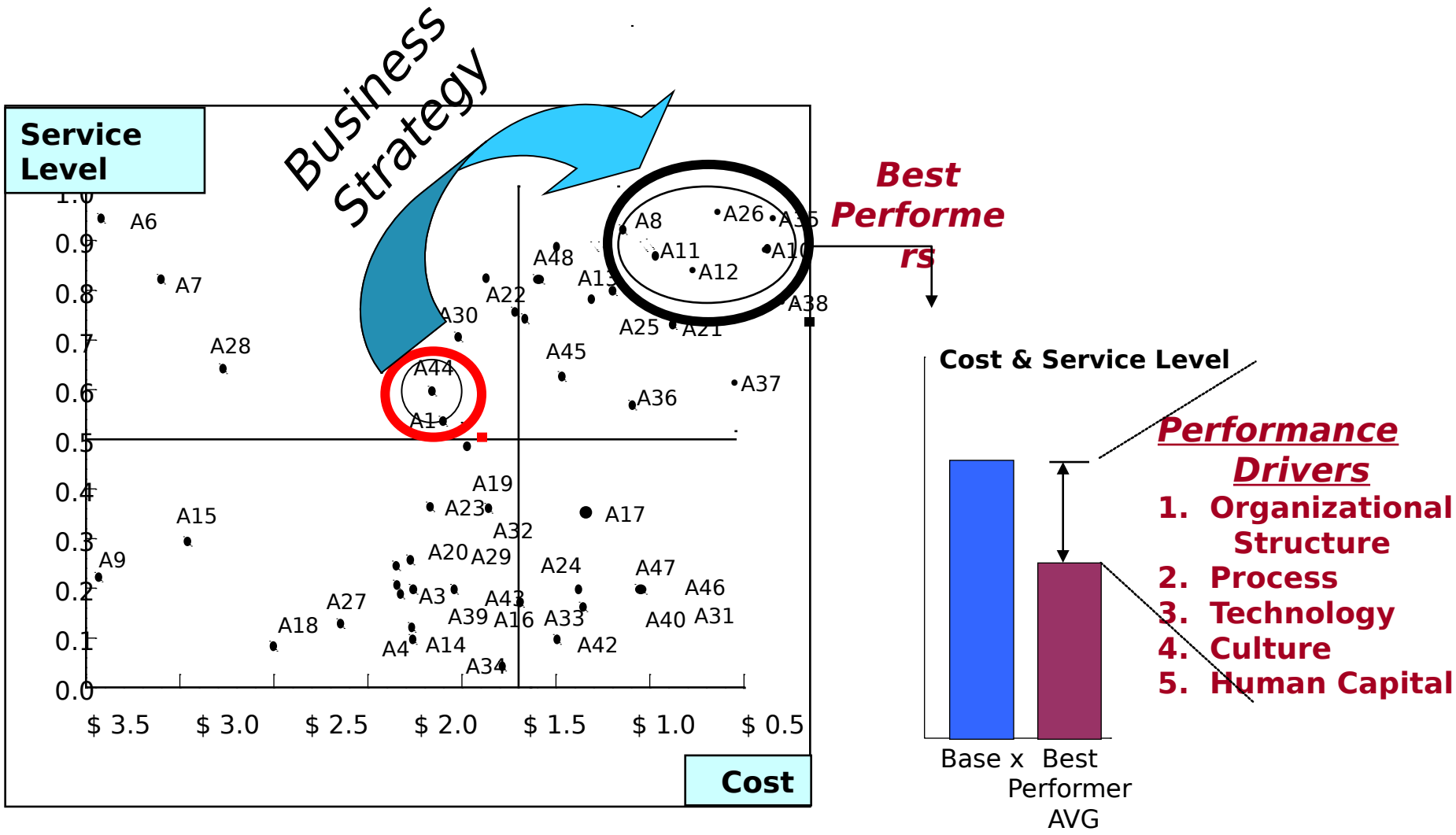
- Activity Based Management (ABM)
  - The tools that use ABC data
    - To improve costs
    - To improve performance
    - To improve planning and budgeting

Activity Based Information Elements



*** Multiple *outputs* contribute to the same *outcome***

Using Benchmarks to Drive Improvement



Process Example

Strategic Purchasing Goods and Services

						Contract Savings	
Installation Process Category	FULL COST (M)	O&M COST	MIL FTE	CIV FTE	CONTRACT COST	5%	15%
FACILITIES /LAND MANAGEMENT	$1,212	$962	543	3,090	$623.0	$31.2	$93.5
COMMAND AND STAFF SPT	$383	$141	4,076	1,235	$31.0	$1.6	$4.7
LOG SUPPORT	$358	$214	2,030	1,113	$53.0	$2.7	$8.0
INFO TECH	$133	$70	1,203	400	$19.0	$1.0	$2.9
TRAINING AND OPS	$402	$108	5,831	723	$17.0	$0.9	$2.6
SECURITY AND SAFETY	$232	$92	2,801	1,198	$11.0	$0.6	$1.7
COMMUNITY SERVICES	$517	$125	458	941	$129.0	$6.5	$19.4
OTHER	$408	$70	875	158	$61.0	$3.1	$9.2
TOTAL	$3,645	$1,782	17,817	8,858	$944.0	$47.2	$141.6

Notes:

Columns 1-6 derived from FY 03 installation ABC models. Columns 7-8 derived from coordination with RAND's Project Air Force team.

Opportunities to achieve improved strategic purchasing is easier with: (1) regional commodity teams to coordinate (2) forecasting whole purchase requirements for commodity to achieve economies of scale (3) monitoring effectiveness of commodity strategy (4) establishing regional partnerships with suppliers (5) manage procurement risks

Examples of Service Level Variation

PERSONNEL SUPPORT COSTS			
Installation	**Personnel Support Costs**	**Permanent Base Staff**	**Cost per Staff**
Quantico	$2,445,964	2,150	$1,137.66
8th & I	$1,877,543	1,096	$1,713.09
Barstow	$1,719,450	1,387	$1,239.69
Albany	$808,628	1,967	$411.10
MCB Lejuene	$3,868,710	2,499	$1,548.10
Beaufort	$252,921	668	$378.62
Cherry Point	$4,644,384	1,390	$3,341.28
New River	$364,717	382	$954.76
MCB Pendleton	$10,126,183	2,768	$3,658.30
Iwakuni	$758,174	1,273	$595.58
Hawaii	$1,450,271	1,009	$1,437.33
Yuma	$585,838	815	$718.82
Miramar	$611,958	953	$642.14
MCAS Pendleton	$66,981	254	$263.70
Okinawa	$3,184,632	3,310	$962.12
29 Palms	$1,063,472	1,353	$786.01
Kansas City	$247,013	410	$602.47
Parris Island	$190,662	938	$203.26
San Diego	$836,171	706	$1,184.38
Installation Totals	**$35,103,672**	**25,328**	**$21,778.43**

Pockets of Success Examples

- **Regional installation C2** (Camp Butler)
- **Shared services** (Camp Lejeune)
- **Regional Contracting** (Camp Pendleton)
- **Regional MCCS** (Parris Island/Beaufort)
- **Strategic purchasing and spend analysis** (ECRRB)
- **GME** (WCRRB)

Need more regional/enterprise initiatives.

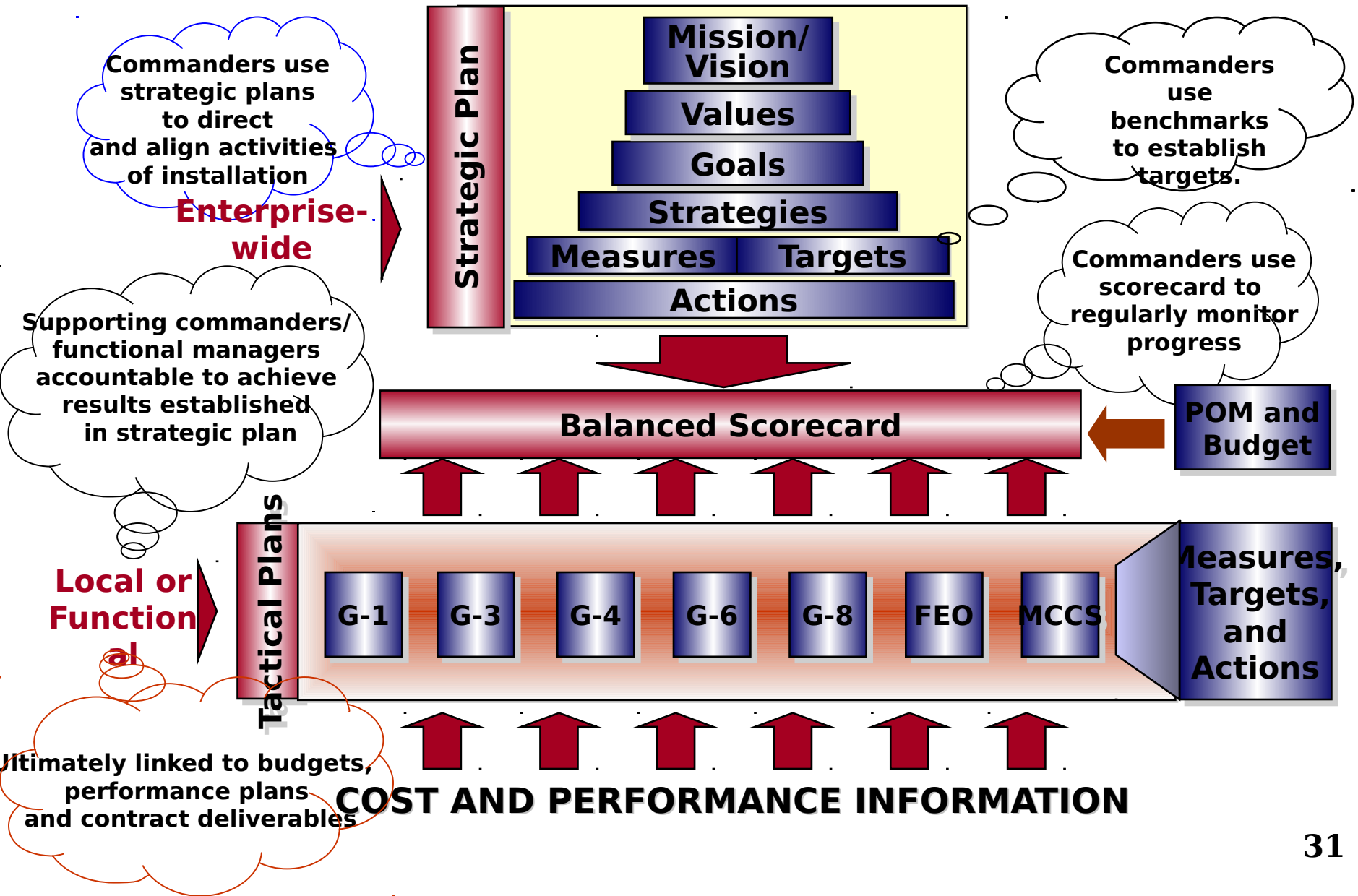
“Government likes to begin things – to declare grand new programs and causes. But good beginnings are not the measure of success. What matters in the end is completion. Performance. Results.”

- GEORGE W. BUSH

PRESIDENT OF THE UNITED STATES

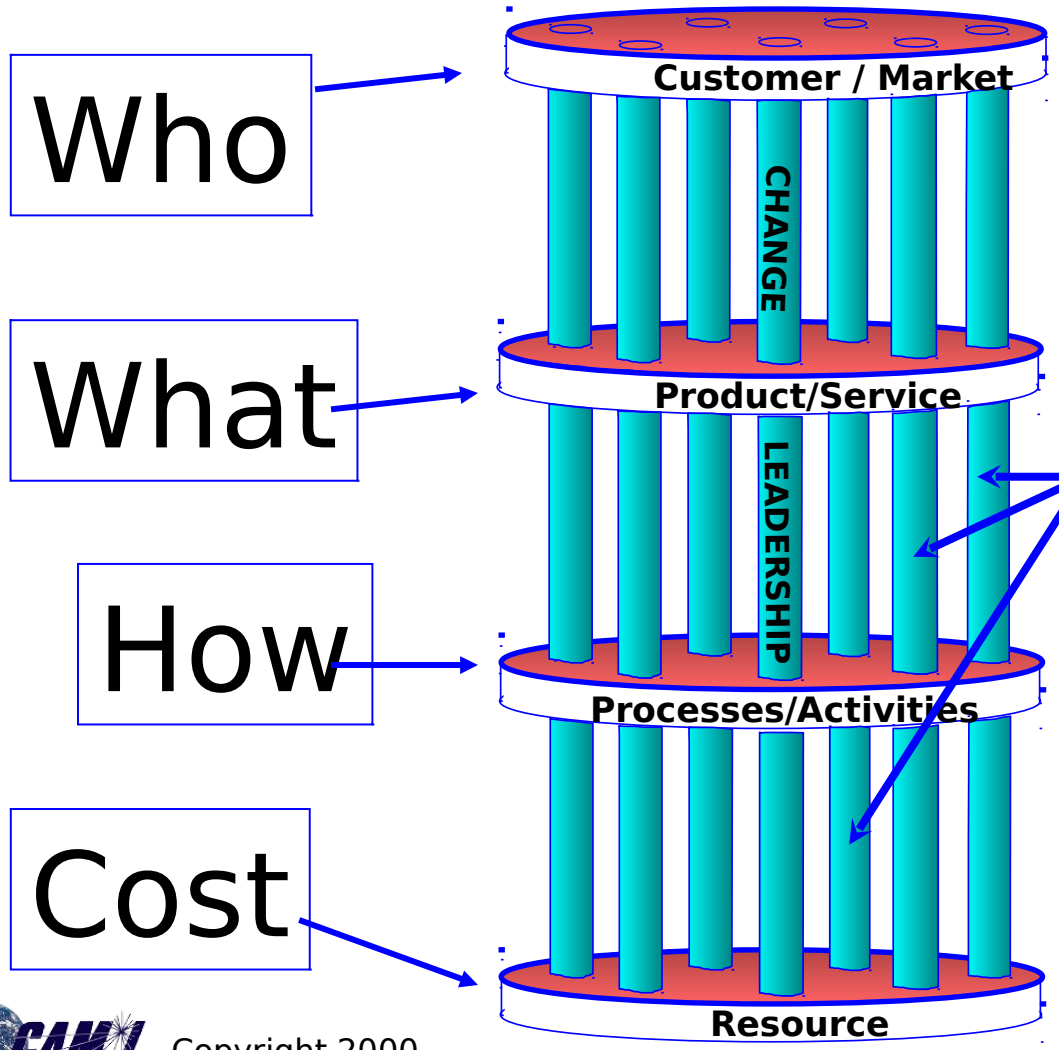
Linking Strategy with Performance

MCBE Planning Model



Improved Training and Education

Business Enterprise Skill Requirement



Decision Domains

Strategic Management Processes

- Target Cost Management
- Extended Enterprise Management
- Asset Management
- Capacity Management
- Process Management
- Integrated Performance
- Activity-Based Cost Management
- Project Management*
- Strategic Planning*
- Change Leadership* *added by USMC

CAM-I Copyright 2000

Target Costing

- Understand support requirement
- Establish a cost limit
- Adjust the process to achieve cost
  - Process improvement
  - Process transformation

Acquisition of Services

- Problem:
  - Service acquisitions costs exceed material
  - Systematic training negligible
  - Contracting and functional problem
- Functional skill sets:
  - Frame relationship with external provider
  - Maintain relationship with external provider
  - Manage customer expectations and satisfaction

Focus on Impediments

Barriers to Change

THE VISION BARRIER
Only 5% of the work force understands the strategy
THE PEOPLE BARRIER
Only 25% of managers have incentives linked to strategy
WHY ORGANIZATIONS FAIL TO EXECUTE STRATEGY
THE MANAGEMENT BARRIER
85% of executive teams spend less than one hour per month discussing strategy
THE RESOURCE BARRIER
60% of organizations don't link budgets to strategy

KAPLAN AND NORTON: FOUR BARRIERS TO STRATEGIC IMPLEMENTATION

MCBE Office Key Responsibilities

- Improve performance and reduce cost
  - Manage business information system
  - Publish cost and performance standards
  - Spur improvement
    - End-to-end process analysis
    - Through benchmarking and best practice analysis

MCBE does for business process what the G-2 does for operations

- Improve management of business reform initiatives
  - Coordinate multiple reform initiatives
  - Establish policy and mitigate impediments
    - Support Regulatory and Statutory changes
    - Manage Marine Corps Productivity Investment Account

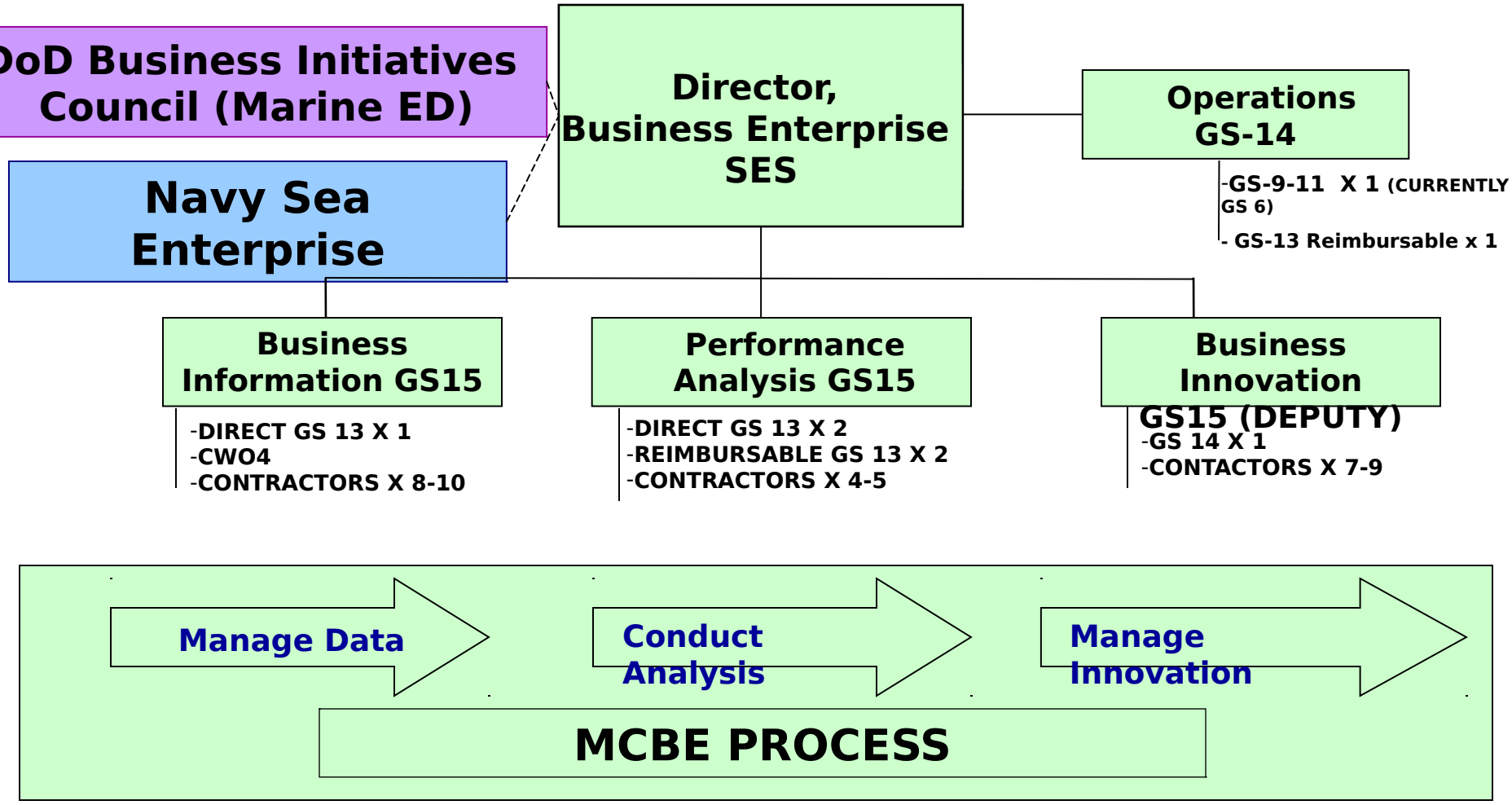
MCBE does NOT implement initiatives.

- Improve in-house business skills
  - Define skills
  - Assist in delivery of training

- Improve external coordination and communication
  - SE BOD, DoD BIC, PMA, PMC

Initiatives are both transformation al & foundational.

MCBE Organizational Diagram
(with functions)

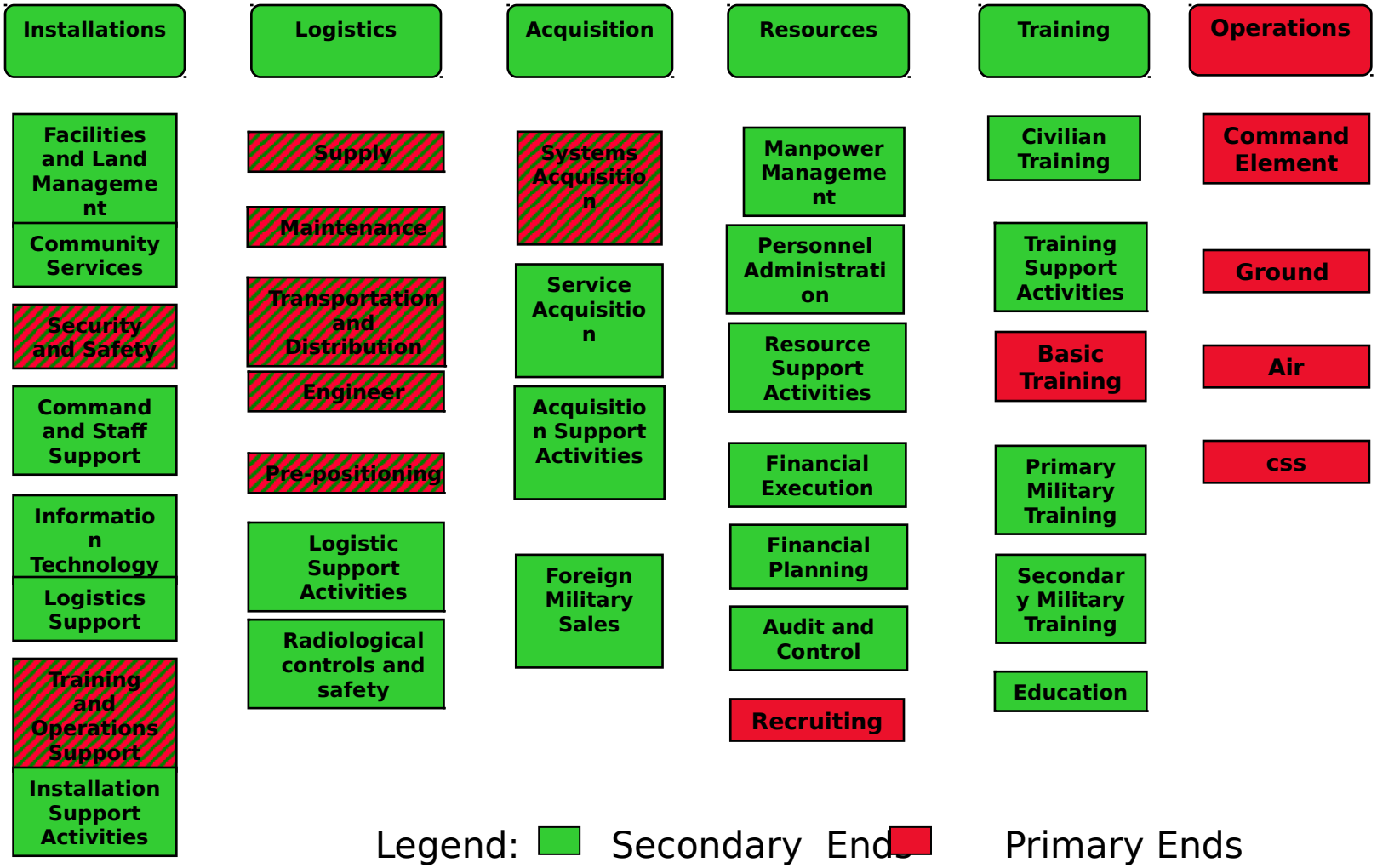


Bottom Line

The Marine Corps is a combat force -- not a business. To be successful, however, we need to support warfighting excellence with well-managed business processes that are both effective and efficient.

- M.W. Hagee

USMC Primary and Secondary Efforts



Secondary does not mean BAD or UNIMPORTANT

MROC and CMC Initial Guidance

Primary Sources of MCBE Direction

- MROC DM 45-2003 (09 May 03) ABRM
- MROC DM 50-2003 (01 Jul 03) MCBE
- MROC DM 06-2004 (15 Dec 03) CSWG
- DM 27-2004 (12 Apr 04) SE Goals and MCBE
- CMC POM06 Guidance (02 Apr 04)
- Guidance from DC’s P&R and I&L

"Improve information for resource decisions

- Implement activity based resource management
- Create
  - Standard performance measures for each program code
  - Enhanced Program Sponsor role
- Accomplish supporting functions:
  - Annual review of program/fiscal codes to ensure alignment
  - Refine ABC model standards
  - Expand ABC beyond supporting establishment
  - Support year by year performance measure analysis

"Expand HQMC Emphasis on Business Improv

- Expand CBE and expand focus from installations to business process across Corps
- Rename MCBE
- MCBE remains in I&L

MROC DM 06-2004
15 DEC 03

"Use A-76/competitive sourcing as total force shaping tool"

- Use competitive sourcing to realign 900 Marines
- Establish core/non-core process designations
- Continue review of COA 3 (CMC emphasis)
  - Realign 4200 Marines as stretch goal
  - (To date: realigned or planned in POM ~ 6K)
  - Be able to show where Marines go
- Develop improved A-76 implementation plan
  - Must learn how to acquire services more effectively

MROC DM 27-2004
12 APR 04

"Must coordinate efforts across Marine Corps"

- Recommitted to Sea Enterprise goals
- Reiterated MCBE mission expansion
- Directed end-to-end business process improvements
- MROC to provide strong corporate level governance
- MCBE will coordinate initiatives and communications
- MCBE remains in I&L
  - As a division
  - Oversee MCBE activities
  - Measure and audit improvement initiatives
  - Represent the Marine Corps externally (SE BOD, BIC, SSG/PMA)
  - Draft a proposed CMC white letter
- DC, CD defines requirements and cost of 2015 warfighting force
- DC, P&R develop POM06 guidance

POM Serial 06-09
02 APR 04

- CMC guidance:
  - *Take **bold**, informed, shaping actions now*
  - *Clearly articulate how we intend to transform our processes, organizations, and equipment consistent with our 2015 concepts*
  - *Coordinate mil-to-civ conversion initiatives with the M&RA working group*
  - *Use measures of effectiveness, metrics, and benchmarking to justify resourcing*
  - ***Aggressively** pursue MCBE initiatives*
    - *To ensure efficient and effective resource allocation*
    - *To improve end-to-end processes*

Process Example: Purchasing Goods and Services

Installation Process Category	FULL COST (M)	O&M COST	MIL FTE	CIV FTE	CONTRACT COST	Contract Savings 5%	Contract Savings 15%
FACILITIES /LAND MANAGEMENT	$1,212	$962	543	3,090	$623.0	$31.2	$93.5
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LOG SUPPORT	$358	$214	2,030	1,113	$53.0	$2.7	$8.0
INFO TECH	$133	$70	1,203	400	$19.0	$1.0	$2.9
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COMMUNITY SERVICES	$517	$125	458	941	$129.0	$6.5	$19.4
UNCERTAINTY IN MODEL	$408	$70	875	158	$61.0	$3.1	$9.2
TOTAL	$3,645	$1,782	17,817	8,858	$944.0	$47.2	$141.6

FY 03 DATA FROM INSTALLATION ABC MODEL

- Full costs include appropriated and non-appropriated. FTE include FAPS, NAF and FN.
- Uncertainty means cost is there, but has not been clearly associated with process in ABC model.

Strategic Purchasing Opportunities
(~$1B on Marine Installations)

- Opportunities for saving
  - Suppliers with multiple contracts
  - Product or services with many suppliers
  - Many independent buying organizations
- Opportunities for performance improvement
  - Varied/poor quality and delivery
  - Long wait times
  - Little information sharing or supplier innovation
  - Few multi-year contracts

Summary of Initiative Impact

- Green dollars saved: >$1.2BM by end of POM06
- Marines realigned: >5,200 (includes PBD 712)
- Systems/platforms divested:
  - SRAC
    - 36 logistics systems retired
    - 20 systems identified for April 2004 retirement
  - NMCI
    - Reduced from 8000+ applications to 1300
    - Process in place to approve new software applications
  - AAO-IPT (396 TCNM items reviewed)
    - 155 items recommended for retirement/reduction/disinvestment
    - $1.2B cost avoidance/$89M cost savings

Examples of Service Level Variation

FIRE AND EMERGENCY SERVICES			
	2003 Fire Services	Total Base Population 1/	Per Capita Cost
Marine Barracks 8th and I	$110,135	3,215	$ 34
MCAGTFTC 29 Palms	$3,642,842	36,928	$ 99
MCAS Beaufort	$1,218,548	17,866	$ 68
MCAS Camp Pendleton	$2,548,495	9,062	$ 281
MCAS Cherry Point	$3,416,819	59,683	$ 57
MCAS Iwakuni	$2,549,195	15,502	$ 164
MCAS Miramar	$7,407,714	43,482	$ 170
MCAS Yuma	$4,110,338	17,139	$ 240
MCB Butler	$10,384,393	63,930	$ 162
MCB Camp Lejeune	$9,560,014	160,009	$ 60
MCB Camp Pendleton	$12,735,248	140,831	$ 90
MCB Quantico	$4,848,956	40,470	$ 120
MCLB Albany	$1,982,282	6,104	$ 325
MCLB Barstow	$4,930,340	3,742	$ 1,318
MCRD Parris Island	$2,815,428	26,689	$ 105
MCRD San Diego	$86,567	26,947	$ 3
USMC HQ Totals	$72,351,054	671,599	$ 108

Examples of Service Level Variation

FACILITY MAINTENANCE June 24, 2004							
Installation	Base Population Served *	Base FTE **	Installation Square Footage ***	Total Base SRM O&M Cost **	O&M Cost per Population Served	O&M Cost per FTE	O&M Cost per Sq.Ft.
29 Palms	14,140	1,573	8,247,169	$32,383,219	$2,290.19	$20,580.64	$3.93
8th & I	1,177	1,077	733,534	$1,739,405	$1,477.83	$1,614.45	$2.37
Albany	2,474	826	7,423,055	$3,616,471	$1,461.79	$4,376.17	$0.49
Barstow	1,717	650	5,021,575	$19,001,384	$11,066.62	$29,253.60	$3.78
Beaufort	4,867	1,629	3,939,937	$2,569,119	$527.87	$1,576.67	$0.65
Cherry Point	16,496	2,679	10,510,919	$46,194,389	$2,800.34	$17,245.33	$4.39
MCB Lejuene	44,877	5,501	23,319,100	$105,153,808	$2,343.16	$19,115.40	$4.51
MCB Pendleton	45,412	2,911	23,649,374	$41,454,211	$912.85	$14,242.25	$1.75
MCAS Pendleton	4,531	389	867,443	$3,939,760	$869.51	$10,137.04	$4.54
Hawaii	13,506	1,251	10,139,154	$19,198,052	$1,421.45	$15,348.62	$1.89
Iwakuni	6,675	1,838	930,750	$17,960,475	$2,690.71	$9,773.40	$19.30
Miramar	10,986	1,428	5,696,627	$6,620,685	$602.65	$4,635.59	$1.16
Okinawa	27,183	5,971	11,469,051	$11,717,779	$431.07	$1,962.45	$1.02
Quantico	16,466	1,841	7,246,702	$17,197,259	$1,044.41	$9,341.61	$2.37
San Diego	12,179	1,794	2,614,272	$5,984,986	$491.42	$3,336.37	$2.29
Yuma	5,557	1,199	3,752,935	$22,852,019	$4,112.29	$19,053.83	$6.09
Henderson Hall							
Installation Totals	**228,243**	**32,557**	**125,561,597**	**$357,583,021**	**$1,566.68**	**$10,983.26**	**$2.85**

* Includes Student Loads

** Base Permanent Party Staff From FY2003 ABC Models

*** From DoD Base Structure Report

Examples of Service Level Variation

MILITARY TRAINING			
Base (Only OMMC)	Military Training	# Marines	$ per Marine
MCB Quantico	$415,807	1143	$ 363.79
Marine Barracks 8th and I	$1,025,795	1037	$ 989.19
Barstow	$92,791	204	$ 454.86
Albany	$21,444	469	$ 45.72
MCB Lejeune	$3,553,861	876	$ 4,056.92
Cherry Point	$1,278,254	584	$ 2,188.79
MCB Pendleton	$7,540,607	1175	$ 6,417.54
Iwakuni	$19,440	364	$ 53.41
Hawaii	$1,376,121	495	$ 2,780.04
Yuma	$30,154	431	$ 69.96
Miramar	$1,840,754	624	$ 2,949.93
MCAS Pendleton	$39,201	214	$ 183.18
Butler	$5,810,046	1103	$ 5,267.49
29 Palms	$11,654,026	627	$ 18,586.96
Kansas City	$23,649	230	$ 102.82
Parris Island	$1,810,117	574	$ 3,153.51
San Diego	$3,840,098	503	$ 7,634.39
Installation Totals	**$40,372,165**	**11468**	**$ 3,520.42**

Examples of Service Level Variation

CIVILIAN TRAINING			
Base (Only OMMC)	Civilian Training	# Civilians	$ per Civilian
MCB Quantico	$294,006	1007	$291.96
Barstow	$138,281	1183	$116.89
Albany	$792,174	1498	$528.82
MCB Lejeune	$1,638,487	1623	$1,009.54
Cherry Point	$167,474	806	$207.78
MCB Pendleton	$16,586	1593	$10.41
Iwakuni	$134,643	909	$148.12
Hawaii	$173,834	514	$338.20
Yuma	$8,981	384	$23.39
Miramar	$133,373	329	$405.39
Butler	$200,005	2207	$90.62
29 Palms	$55,797	726	$76.86
Parris Island	$643,448	364	$1,767.71
Installation Totals	**$4,397,089**	**13143**	**$334.56**